**Collaboration in Action Through Early QOE**

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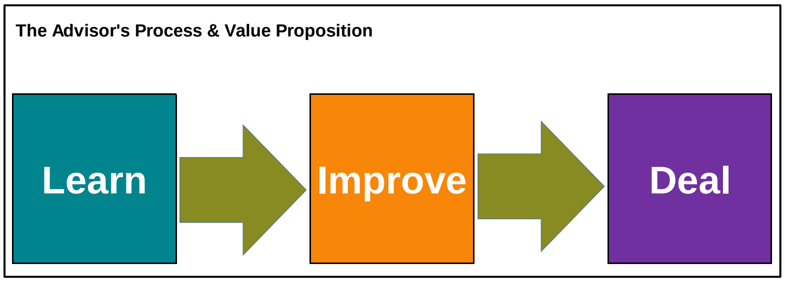
In our last edition of Mid-Market Talk we introduced the AM&AA's new framework for collaboration "Learn Improve Deal". Just last week an investment banker and I talked about how to best take this conceptual framework and put it into action. We've known each other for many years, but have not yet worked directly with one another. In what ways could we test the waters?




Conducting pre-due diligence quality of earnings ("QOE") is one mechanism that I suggested we utilize to work together before entering into the heat of a live transaction. This would offer an opportunity for a win-win-win early in the relationship. For example, this piece of pre-due diligence:

- Provides the investment banker a "test-drive" of the advisor (and vice versa) to learn how each party interacts
- Provides evidence of the caliber of the advisor's work product
- Educates the business owner on how an unbiased investor looks at the business
- Illuminates opportunities to better prepare for a future transaction when the "real" QOE is required
- Highlights opportunities to improve the business itself and/or its value drivers
- Motivates the owner to act on these opportunities to enhance the value of the business before going to market
- Allows the investment banker to stay in communication with the prospect if, in its current state, the banker would have taken a pass on the prospect
- If the investment banker has taken the company on, an early QOE allows the banker to wrap the completed QOE into the confidential information memorandum. This in turn:
    - Provides prospective buyers with greater insights for preparation of a letter of intent "LOI" or an offer
    - Reduces risk of re-trading of deals post-LOI
    - Improves the speed to close

One of the obstacles to collaboration we hear in AM&AA and Mid-Market conversations is that it seems challenging to get the business owner to understand the benefit of working with a value growth advisor. The investment advisors are seeking tools and strategies to use to approach the business owner. (This was the genesis of "Learn Improve Deal" in the first place.) There is skepticism, much like there is skepticism about what the value of the business really is worth versus what the owner wants to believe the business is worth.

Early QOE helps the business owner recognize and learn the finer points and complexities of the sales process prior to being in the throes of negotiation.  It also helps mitigate the risk of meltdown during actual QOE because the  business owner has been through the drill before and better understands why an outside party may be asking lots of questions or diving deeper into particular items.  Lastly, they can provide and produce the requested data in a timely manner because they already have learned the significance of the request.

The other big obstacle to collaboration is trust.  Time  is a hot commodity, particularly during a transaction, so the time to build trust is now, long before due diligence or a transaction.  The time to assess whether someone is a good team player and resource for your client or prospect is before going to market.  The risk of introducing unknown player into the thick of the transaction game is not wise or beneficial.

For the investment banker who may have already decided that the prospect isn't ready and sends the prospect down the road, this collaborative approach may keep the door open.  This demonstrates a level of caring at the same time acknowledging the business, in its current state, isn't a match for the investment banker's practice. By suggesting or even requiring early due diligence, the banker provides the business owner with some direction for his journey, assuming they follow-through with it, improving the odds of a better outcome.  Simultaneously, there's a higher probability that the business owner will come back to the same investment banker to either report back on their progress or test the market again. The collaboration with the value growth advisor bolsters the investment banker's position while adding an independent voice to the equation.  It sets the stage for "Learn Improve Deal" and a win-win-win.

What are your experiences with early QOE and collaboration?  We'd love to hear from you and keep the conversation going!  Email us at msullivan@honkamp.com or chuckm@eaglecorporateadvisors.com.